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November 12, 2002

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD  
Director and Chief Medical Officer

**SUBJECT: DHS SYSTEM REDESIGN PROPOSAL UPDATE**

On October 29, your Board approved a recommendation by the Department of Health Services (DHS) to postpone consideration of Scenario II of the Department's system redesign until November 19. This delay was approved due to the continuing discussions with federal and state representatives, consideration of Measure B on the November 5 ballot, and the anticipated announcement on November 15 by the Governor as to whether he will call a special session of the State Legislature to discuss health care issues.

As you know, on November 5, the Los Angeles County electorate overwhelmingly approved Measure B, which will provide an estimate \$168 million annually in new funding to support emergency and trauma services and bioterrorism preparedness activities in the County. This infusion of new funds provides sufficient support to allow for the revision of the Department's system redesign proposal and potentially retain the current level of emergency and trauma care provided by DHS hospitals. Because of the complexities associated with the manner in which federal and state funds flow into the system and interact with local dollars, the analysis of the impact of Measure B on the Department's system redesign proposal is not without challenges. The Department continues to work to develop a plan for the allocation of Measure B funds programmatically in a manner that supports the delivery of emergency, trauma, and bioterrorism preparedness activities.

Additionally, on November 6, Tom Scully, Administrator of the federal Centers for

Medicare and Medicaid Services (CMS), Grantland Johnson, Secretary of the California Health and Human Services Agency, and Diana Bonta, Director of the California Department of Health Services met with your Board and other County representatives and toured three DHS hospitals. While there has been no definitive recommendation on the part of CMS regarding the County's request for a long-term stable source funding and the necessary flexibility to sustain Scenario III, discussions between the three levels of government are on-going.

As a result of the passage of Measure B, as well as the continuing negotiations with CMS and the State, I am recommending that your Board's consideration of Scenario II, which would result in the reconfiguration of Harbor-UCLA Medical Center and Olive View-UCLA Medical Center to ambulatory care centers, the closure of Roybal Comprehensive Health Center and four additional health centers, and the elimination of funding for the Public-Private Partnership Program, not be taken up until there is resolution of the County, CMS, and the State discussions.

The funding available to the Department under Measure B may be sufficient to maintain current emergency and trauma capacity within the system. However, despite this ongoing source of revenue, DHS continues to experience a significant deficit that threatens the viability of its ambulatory care programs. The phase out and expiration of the current Waiver in Fiscal Year 2004-05 places these programs at significant risk and requires the identification of an ongoing and stable source of revenue to support the Department's ambulatory care activities.

Full implementation of Scenario III will result in administrative and service reductions that amount to over \$357 million in annual savings by Fiscal Year 2005-06. Under Scenario III, as approved by your Board, DHS would:

- ▶ Maintain four acute care hospitals, three of which would provide trauma care;
- ▶ Move forward with Beilenson Hearings in January related to the closure of Rancho Los Amigos National Rehabilitation Center, as well as engage an independent consultant to validate the Department's findings as to the fiscal and market viability of the facility;
- ▶ Eliminate 100 inpatient beds at LAC+USC Medical Center over the next two years; 50 of which would be subject to Beilenson Hearings in January;
- ▶ Achieve 16 percent savings at King/Drew Medical Center and five percent savings at LAC+USC Medical Center;
- ▶ Reduce expenditures for inpatient psychiatric services by \$20 million;

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- ▶ Terminate the provision of inpatient services at High Desert Hospital and convert the facility into an ambulatory care facility;
- ▶ Continue operation of six comprehensive health centers;
- ▶ Close 16 health centers and four school-based clinics; and,
- ▶ Restructure the Public-Private Partnership program and reduce program funding by \$15 million.

I anticipate the analysis of the impact of Measure B on the Department's system redesign proposal, as well as the negotiations with CMS and the State, to be concluded within the next four to six weeks. It remains the Department's goal that funds are realized sufficient to retain the current level of emergency and trauma care provided by DHS hospitals. For that reason, I am requesting that the November 19 DHS Budget Committee of the Whole meeting, as well as consideration of Scenario II, be held in abeyance until the January 28, 2003, meeting of your Board.

Please let me know if you have any questions.

TLG:ak

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors